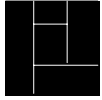


SEVERELY DISTRESSED PUBLIC HOUSING: THE COSTS OF INACTION



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Over the past decade, the HOPE VI program has invested over \$6 billion in federal funds for the replacement or revitalization of severely distressed public housing developments. These federal dollars have leveraged billions more in other public, private, and philanthropic investments. To date, over 78,100 distressed public housing units have been demolished, with another 10,400 units slated for demolition.¹

The current administration has been critical of the high costs of HOPE VI, proposing that the program should be cut back dramatically or even eliminated. In effect, they argue that the problem of severely distressed public housing has largely been solved and that the country cannot afford to replace or revitalize more properties. However, a growing body of research highlights the damage to families and children of living in dangerous, high-poverty environments and the potential benefits of replacing severely distressed public housing with a combination of high-quality, mixed-income housing and rental vouchers.² Drawing on the existing research evidence, this study systematically compares the costs (both monetary and nonmonetary)

of maintaining severely distressed public housing developments to the potential costs and benefits of effectively revitalizing them. The analysis focuses on the costs and benefits for which the research evidence is strongest and makes conservative assumptions about the likely impacts of public housing revitalization.³

Although the redevelopment of distressed public housing is expensive, in many circumstances, the costs to taxpayers of inaction may be even higher. An effective redevelopment strategy can dramatically improve living conditions for families, resulting in better physical and mental health and increased employment and earnings. Moreover, redevelopment can trigger the revitalization of previously blighted communities. These outcomes also save public resources. In fact, for a typical distressed public housing project, mixed-income redevelopment—effectively implemented—can save the public more than \$20 million over 20 years. Although more modest rehabilitation strategies are less expensive in the short-term, they yield lower savings for taxpayers over the long-term.

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The level of taxpayer savings generated by mixed-income redevelopment can vary quite widely, depending on the characteristics and location of the project. But in every case, the *net* public costs of redevelopment (after accounting for the costs of inaction) are much lower than the initial, up-front

investment required. Moreover, high quality resident services—including relocation assistance, case management, and work supports—not only yield better life outcomes for families and children, but essentially pay for themselves over the long-term.

The project:		
Number of units		701
Vacancy rate		37.1%
Overall REAC score		68
The residents:		
Percent female-headed		84.7%
Percent elderly		11.7%
Percent TANF dependent		42.3%
Average income		\$8,913
The neighborhood:		
Poverty rate		68.0%
Adult unemployment rate		21.0%
Labor force participation rate		50.4%

A Prototypical HOPE VI Project

By our estimates, between 47,000 and 82,000 severely distressed units remain in the public housing inventory that are not currently scheduled for demolition and replacement. The lower bound estimate includes properties located in census tracts with poverty rates above 30 percent (reflecting serious neighborhood distress), scores from HUD’s Real Estate Assessment Center (REAC) below 75 (reflecting serious problems of physical deterioration or mismanagement), and more than 30 percent of residents relying primarily on welfare income, which indicates resident distress. The upper bound includes properties with REAC scores below 80 and more than 25 percent of residents relying primarily on welfare income.⁴

Table 1 summarizes the characteristics of one, “prototypical” project in this inventory. The project is very large (701 units) and in poor physical condition

(REAC score of 67). More than a third of its units are vacant, four of every ten households are dependent on welfare, and the average annual household income is below \$9,000. Although this project is located in a census tract that is 68 percent poor, it is not far from much lower-poverty communities—within 1.25 miles. This prototypical project is representative of seven projects that remain in the public housing inventory—4,905 severely distressed units.

We assess the costs and benefits of implementing two stylized revitalization strategies for this project.⁵ The first strategy involves demolition and replacement of the original development with mixed-income housing. Specifically, under this scenario, the total number of units on the original site is reduced by one-third. Of the replacement units, one-third are public housing (with Low Income Housing Tax Credit financing), one-third Low Income Housing Tax Credit units, and one-

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third market-rate rental and for-sale units. The second strategy involves substantial rehabilitation of the original development, with all the original units retained as public housing. Under each scenario, we assess two supportive service packages: a “basic” package of resident relocation and community supportive services and an “enhanced” package that includes intensive mobility counseling (modeled on the Moving to Opportunity demonstration), individual case management (modeled on the Family Self Sufficiency Program), and meaningful work supports and incentives (modeled on the Jobs-Plus demonstration).⁶ Both of these redevelopment strategies require large, up-front public sector investments. Table 2

summarizes the costs of implementing the two alternative reinvestment strategies for the prototype development, based on data for 192 HOPE VI projects initiated by the last quarter of 2003. The demolition and mixed-income redevelopment strategy costs \$77.6 million, about one-quarter of which is covered by private sector investments.⁷ The substantial rehabilitation strategy costs \$61.2 million, all of which is covered by the public sector. Supportive services costs under the mixed-income redevelopment scenario total \$3.2 million for the basic package and \$5.0 million for the enhanced package. The corresponding costs under the substantial rehabilitation strategy are \$1.6 million and \$3.5 million.

Table 2: Costs of Redevelopment for the Prototypical Project

	Demolition & Replacement	Substantial Rehabilitation
Total Development Costs (\$ millions)	77.6	61.2
HOPE VI grant	28.7	61.2
Tax Credit Equity	29.5	0.0
Private Capital	19.4	0.0
Supportive Service Costs (\$ millions)		
Basic	3.2	1.6
Enhanced	5.0	3.5
Total Public Costs (\$ millions)		
Basic	46.7	62.8
Enhanced	48.5	64.7

Costs and Benefits of Action Versus Inaction

Empirical evidence indicates that investing in demolition and mixed-income redevelopment can be expected to yield dramatically better outcomes than would inaction—for the project, its original residents, and the surrounding community. And all these outcomes have cost implications for the public sector.

For the prototypical project, mixed-income redevelopment has been shown to result in dramatically improved physical conditions, much

lower vacancy rates, and substantial reductions in crime. As a consequence, the newly built public housing development can be expected to have much lower annual operating and capital costs per unit, and its higher rates of occupancy would yield larger per-unit tenant rent contributions.⁸ Market rents are assumed to fully cover the costs of operating the unsubsidized units. Altogether, the expected annual housing subsidy costs are \$3.9 million lower per year after demolition and mixed-income redevelopment than they would be if the distressed project was left standing.

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For the original residents (both those who use vouchers to relocate permanently and those who return to the mixed-income development), redevelopment has been demonstrated to result in higher housing quality and improved safety. Research also indicates that, with enhanced supportive services, residents can also be expected to enjoy significantly lower rates of obesity, better mental health, and higher rates of employment and earnings. These improvements in the well-being of low-income families translate into lower expected welfare and unemployment insurance costs, an increase in the Earned Income Tax Credit, higher local income tax revenues, lower costs to the criminal justice system, and lower Medicaid spending—saving the public sector an estimated \$170,000 per year with the basic service package and \$313,000 per year with the enhanced package.⁹

For the surrounding neighborhood, mixed-income redevelopment has the potential to yield substantial reductions in poverty and unemployment, increases

in property values, and—as a consequence—higher property tax revenues. Empirical research on the impacts of HOPE VI investments on property values is extremely limited, but suggests that the effective redevelopment of the prototype project could reasonably be expected to increase local property tax revenues by an average of \$492,000 annually compared with the status quo.¹⁰

Over 20 years, the reduced costs to the public sector of operating the prototypical project and meeting resident needs, combined with increased property tax revenues more than pay for the initial public investment in the redevelopment. Specifically, as Table 3 illustrates, for the prototypical distressed project, inaction actually costs the public sector \$22.0 million more over 20 years than demolition and mixed-income redevelopment. Note that the costs of enhanced community and supportive services essentially pay for themselves over time because the improved resident outcomes can be expected to reduce public sector costs.

20-Year Net Present Value (\$ millions)	No Intervention	Demolition & Mixed-Income Redevelopment	
		Basic	Enhanced
Estimated Public Costs (\$ millions)			
Public development cost	0.0	45.6	47.3
Project costs	105.1	46.5	46.5
Public costs of resident needs	73.0	70.5	68.6
Estimated Revenues (\$ millions)			
Resident income taxes	0.5	0.5	0.7
New property tax revenues	0.0	6.5	6.5
Total (\$ millions)	177.6	155.6	155.3
Net Cost of Investment	--	-22.0	-22.3

The same is not true of the substantial rehabilitation strategy. Although the total development cost of this intervention is lower, the public sector pays all of it. Because the project remains 100 percent public housing, its expected operating costs do not drop as much and the neighborhood poverty rate is unaffected. Residents experience improved physical conditions and (because of improved management) lower crime, but—even with

enhanced resident services—these improvements are not sufficiently dramatic to yield the reductions in obesity and improvements in mental health that can reasonably be expected from the mixed-income redevelopment scenario. The predicted impact of redevelopment on the surrounding neighborhood is also much more modest, and would yield a smaller increase in property tax revenues.¹¹ Altogether, the substantial

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rehabilitation strategy with basic services costs \$5.5 million more over 20 years than the status quo, and \$6.4 million more with enhanced services. It is important to note, however, that the net, long-term cost of the substantial rehabilitation strategy is dramatically lower than its initial, up-front cost.

Variations in Expected Costs and Benefits

Analysis indicates that long-term costs and benefits of revitalization can vary quite dramatically depending on the characteristics of the original development. Consequently, local decisionmakers should design their redevelopment strategies in the context of local community needs and market conditions. A single redevelopment strategy does not fit all circumstances.

First, location clearly matters. For the prototypical project outlined above, increases in local property tax revenues play a large role in offsetting redevelopment costs. Smaller projects, which would exert less influence on overall neighborhood conditions, and geographically isolated projects, located farther away from centers of market activity, would be expected to yield smaller tax revenue gains. In these circumstances, mixed-income redevelopment can still be expected to yield significant improvements in housing conditions and in the well-being of project residents, but the impact on surrounding property values would probably be more modest, and the total public-sector savings would not necessarily cover all the costs of redevelopment.

A second critical factor is the occupancy rate in the original development. In the prototypical project, vacancies are high, so that the housing subsidy costs of serving all the original residents is lower than if more of the original units were occupied. If vacancies were lower—12 percent rather than 37 percent—the total 20-year cost of redevelopment with enhanced services would exceed the cost of inaction by \$3.4 million. Under these circumstances, however, mixed-income still yields dramatic improvements in the well-being of families and communities, and the net cost to the public sector is small relative to the upfront investment.

Implications for Action

Between 47,000 and 82,000 severely distressed units remain in the public housing inventory. Although tackling this remaining inventory would be costly, the costs of inaction are also high. Doing nothing means that families continue to live in intolerable physical conditions, victimized by high rates of crime and disorder, and suffering from poor physical and mental health as a consequence. Moreover, severely distressed public housing blights the neighborhoods in which it is located, contributing to the concentration of poverty and undermining property values. All these outcomes generate costs to the public sector.

Because the current knowledge base is limited, it is not possible to rigorously quantify all costs and benefits of public housing revitalization. More empirical research is clearly needed. Nonetheless, the analysis presented here indicates that for a prototypical distressed project in the public housing inventory, inaction is more costly over a 20-year horizon than demolition and mixed-income redevelopment. Moreover, delivering an enhanced package of community and supportive services yields better quality-of-life and self-sufficiency outcomes for families and children, and essentially pays for itself in public sector savings. Even in circumstances where reinvestment does not yield a net savings, the high costs of inaction mean that redevelopment is actually less costly than it may appear in the short-term. However, the costs and benefits of redevelopment do not occur in the same time frames, and are borne by different levels of government.

Demolition and mixed-income redevelopment strategies yield substantially greater benefits—and greater savings to the public sector—than more modest rehabilitation strategies. But these strategies have to be implemented effectively if they are to yield meaningful improvements in the lives of residents, significant improvements in neighborhood conditions, and, ultimately, net cost savings. Poorly implemented revitalization plans probably cost the public sector just as much up front but cannot be expected to pay off in improved outcomes, reduced public costs, or increased public revenues over the long-term.

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Finally, the analysis reported here highlights the critical role that neighborhood revitalization plays in determining the long-term cost effectiveness of investments in distressed public housing. The public-sector savings are greatest in circumstances where redevelopment triggers a broader neighborhood revitalization process, which results in rising property values and property tax revenues. This finding does not mean that investments in

distressed public housing are not worth making in other circumstances, but it does mean that these investments may not entirely pay for themselves over the long-term. And it highlights the need to protect the interests of low-income households living in these neighborhoods by preventing run-away gentrification and displacement from occurring as a result of public housing revitalization.

Endnotes

¹For a comprehensive review of research on the HOPE VI program, see Popkin et al. (2004). Current estimates of the number of units demolished or scheduled for demolition are reported in HUD (2007).

² See Popkin et al. (2002), Popkin et al. (2004), Orr et al. (2003), and Briggs and Turner (2006).

³ Unlike traditional cost-benefit analyses, this study does not attempt to monetize all the human and community costs and benefits associated with distressed public housing. Instead, we focus on public sector costs and savings that can be expected to result from outcomes for residents, housing developments, and the surrounding communities. A comprehensive methodological report on this analysis (Turner et al. 2007) is forthcoming.

⁴ See Kingsley et al. (2004) for a complete discussion of these estimates, which are based on analysis of data from HUD's public housing management information systems. These indicators are not put forward as a true or complete definition of severely distressed public housing. Nonetheless, we think they are sufficient to suggest that, even affording a fairly wide margin of error, the candidate pool of severely distressed public housing is by no means exhausted.

⁵ For comparability purposes, we calculate the costs and benefits of serving the same number of very low income households for all three interventions and the status quo.

⁶ For more information on both Moving to Opportunity and Jobs-Plus, see Turner and Rawlings (2005). For more information on the Family Self-Sufficiency Program, see Lubbell (2004).

⁷ Again for comparability purposes, the LIHTC subsidy for the new public housing units is included in the total public cost of redevelopment, but the subsidy for the non-public housing LIHTC units is not, since these units would have been developed somewhere else in the community under the "inaction" scenario.

⁸ Evidence is drawn from Holin et al. (2003) and Harvard University Graduate School of Design (2003). For detailed calculations, see Turner et al. (2007).

⁹ Evidence is drawn from Holin et al. (2003), Orr et al. (2003), Turner and Rawlings (2005), Cohen et al. (1994), Finkelstein et al. (2003), Druss et al. (2001), and ongoing Urban Institute research on a panel of original residents from a sample of HOPE VI developments. For detailed calculations, see Turner et al. (2007).

¹⁰ Evidence is drawn from Philadelphia Housing Authority and Econsult Corporation (2005) and Minnesota Taxpayers Association (2004). For detailed calculations, see Turner et al. (2007).

¹¹ For detailed calculations, see Turner et al. (2007).

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